

## Institute of Directors Member Survey

In February, the IoD surveyed its members on tax policy. At a time when taxes have increased and are set to increase yet further, our survey reveals widespread discontent about current UK fiscal policy and the administrative burdens which accompany it. As one member put it “I am fed up paying more to someone who keeps wasting it.”

The vast majority of respondents said that the tax burden faced by their business had increased recently, with a similar proportion noting an increase in the administrative burden of taxation.

The IoD’s decision to call for the scrapping of the planned increases in National Insurance is vindicated by the results of our survey, which shows that the majority of companies are having to cut jobs, reduce salary increases or increase prices to fund the £4bn bill.

Equally, our call for less tinkering with the tax system and a period of stability struck a chord with members. As one put it:

*“Dream budget: let us get on with our own business without the constant petty interference from Government and the ridiculously complicated tax regime”*

In this report, we analyse some of the results of our survey.

### **New Tax Reliefs**

A number of new tax reliefs have been introduced in recent years and the IoD has supported their introduction. Our survey asked whether members had been able to take advantage of any of these new reliefs for their firms.

The majority of respondents (74%) had not been able to claim any of the new tax reliefs and of the 26% who had, very few had been able to take advantage of more than one. 16.8% of respondents had claimed tax relief for expenditure on Research and Development expenditure, compared to 8.8% who had claimed relief for intangible expenditure.

The figure for take up of corporation tax relief for the disposal of substantial shareholdings was 3.8%. Since disposing of a “substantial shareholding” is not something which businesses do regularly, in contrast to the areas covered by the other reliefs we asked about, this figure is not necessarily disappointing.

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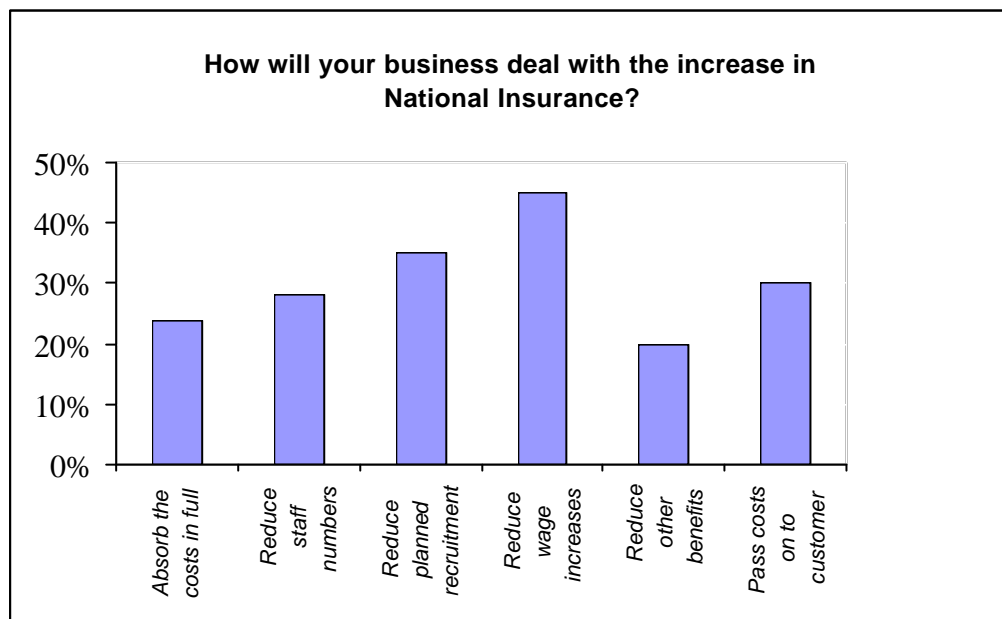
# BUDGET 2003: SURVEY OF IoD MEMBERS

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## National Insurance Increases

The increase in Employers' National Insurance contributions set to come into effect in April has been criticised – not least by the IoD – on the grounds that increasing the cost of employing people is likely to damage employment. Our survey figures seem to bear this fear out.

*“The more we are taxed for employing people the less people we will employ” – IoD member*



Only 23.8% of respondents plan to absorb the increased costs in full. The remaining 76.2% will be taking at least one of a range of measures.

28% of respondents will be forced to reduce staff numbers in order to manage the additional cost. 35% will be cutting back on planned recruitment.

For those employees who remain, the additional 1% employee contributions will not be their only financial concern. 45% of employers will be reducing wage increases in order to meet the cost of the additional employer contributions, with 20% reducing other employee benefits, such as pensions. Not, perhaps, a response the Government will welcome given the “pensions crisis.”

Passing the cost on to customers is something that 30% of respondents plan to do – although as one respondent put it “it will be difficult to pass costs to clients as they have the same problem”.

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## Tax Credits

April sees the replacement of the Working Families Tax Credit with the Working Tax Credit and the replacement of the Children's Tax Credit with the Child Tax Credit. Confused? As one respondent put it "There is so much stuff coming out of this Government I have stopped reading most of it". This seems to be the case with the changes to tax credits, for which 4 out of 10 businesses have not prepared.

38% of respondents have not prepared for these changes at all, and this is particularly skewed towards smaller firms; 52% of respondents with fewer than 9 staff and 42% of respondents with between 10 and 49 staff had not prepared, in contrast to 11% of those with more than 250 staff.

Of those who have prepared for the change, the proportion of those outsourcing payroll to a specialist (27%) and those retraining in house staff (26%) was broadly similar, although larger firms were much more likely to retrain staff than smaller (62% of firms with over 250 staff as opposed to 8% of those with under 10). This probably reflects the fact that in order to be able to justify an in house payroll specialist, a relatively large number of staff is required.

In terms of administration costs, the proportion of respondents who will see no change when the new tax credits come in is exactly the same as the proportion who will see administration costs increase – a 50/50 split. Interestingly, there was no significant difference between small and large firms in this breakdown.

## Business Rates

Business rates raise a significant amount of revenue – £18 billion last year, according to HM Treasury – but often attract little attention compared to, say, Corporation Tax. Since rates are not linked to profits, they are a regressive form of taxation.

We asked members whether, relative to their corporation tax bill, their business rates bill was lower, about the same, or higher. 23.8% of respondents said that their rates bill was lower than their corporation tax bill, with 30% saying it was broadly similar. However, 41.6% of respondents said that they paid more in rates than in Corporation Tax. This suggests that Business Rates deserve more attention as a tax than they have received so far. Interestingly, there was no significant change to the pattern of responses between small and large companies in their answers to this question.

Turning to whether the level of rates had seriously affected their business, 45% of respondents said that they had not compared to 38.6% who felt that they had. 13.6% were unsure. The underlying figures show that large businesses were less likely to feel the level of rates undermined their competitiveness than smaller businesses.

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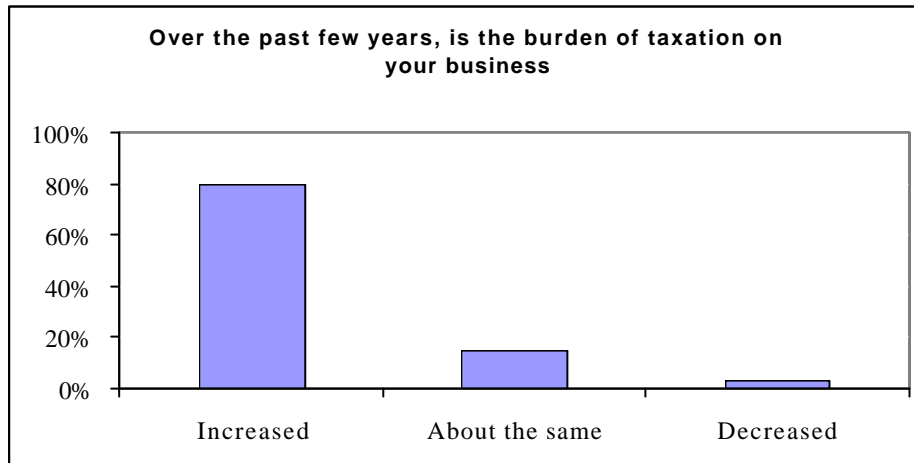
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## The Tax Burden

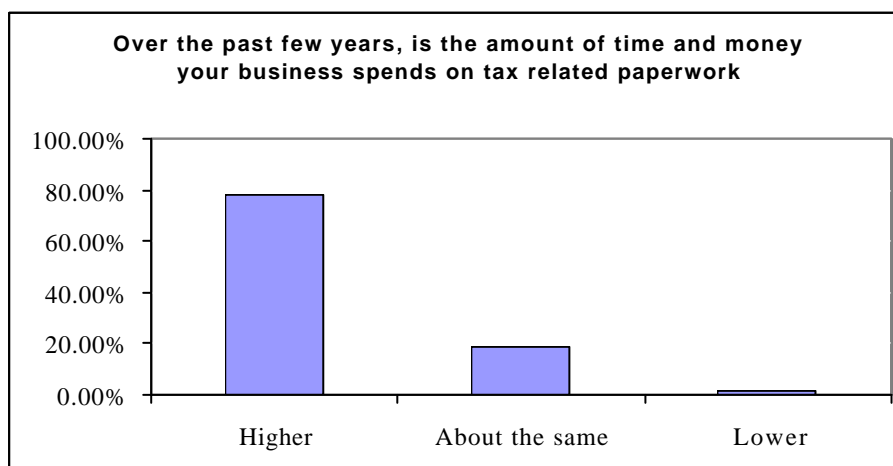
We asked members whether their own business was paying more tax, and whether the administrative burden of tax had increased or decreased. Despite some tax breaks being targeted at smaller firms, there was no discernible difference in the responses from small firms compared to large firms.

*“The current tax system is crucifying small business. We are encouraged to start businesses then strangled in red tape and stealth taxation” – IoD Member*



79.7% of respondents said that their business was paying more in tax, with 14.6% paying about the same amount. Only 3.2% of respondents said that their business was paying less tax. One of the problems with a rising tax burden is, of course, that it discourages investment and holds back growth – one respondent said that changes in taxation “are restricting further investment by us in the UK”.

*“More tax and spend, more paperwork, more regulation and overheads ... why are we bothering?” – IoD Member*



The response on the administrative burden was similar, with 77.7% of businesses spending more time and money on tax related administration, 18.8% spending about the same and only 1.2% of businesses spending less time. As one respondent put it “Businesses are becoming more and more unpaid tax collectors and administrators.”